

# WASHINGTON STATE DEPARTMENT OF REVENUE

## SPECIAL NOTICE

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For further information contact:  
Telephone Information Center  
1-800-647-7706 or (360) 486-2345

Alternate Formats (360) 486-2342  
Teletype 1-800-451-7985

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### **Special Notice - Warehouse Sales Tax Exemption**

This Special Notice explains the new state sales and use tax exemption for warehouse and grain elevator construction or equipment acquisition. The exemption is authorized by Engrossed Second Substitute Senate Bill (E2SSB) 5074 (Chapter 450, Laws of 1997), and became effective May 20, 1997. The notice uses a question and answer format to explain what is eligible for the exemption, who is eligible for the exemption, and how the exemption works. Pre-application is not required before beginning construction or before acquisition of machinery and equipment. However, this is a complicated program with specific requirements for eligibility and you are encouraged and invited to contact the Department of Revenue to discuss your eligibility. Please call the Telephone Information Center at 1-800-647-7706 for additional information and assistance.

### **General Eligibility Questions**

#### **1) What type of businesses qualify for this exemption?**

Wholesalers, retail distribution centers, and third party warehousemen may qualify. A wholesaler is specifically defined in the law to mean a person who makes wholesale sales (as defined in Chapter 82.04 RCW) of tangible personal property. Farmers that make wholesale sales of agricultural products are excluded from this special definition of wholesaler.

A retail distribution center is a facility that is operated by a person who makes retail sales of tangible personal property (as defined in Chapter 82.04 RCW) and who owns or operates a warehouse for the storage of their own retail goods.

A third party warehouseman means a person operating a cold storage warehouse or storage warehouse.

#### **2) What types of businesses do not qualify for the tax exemption?**

Farmers that make wholesale sales of agricultural products are excluded from the special definition of "wholesaler" and therefore do not qualify for the exemption.

Manufacturers do not qualify for the exemption if any part of the manufacturing operation takes place in the warehouse. Thus, if the storage equipment in the warehouse qualifies under the manufacturing

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machinery and equipment sales tax exemption, construction of the warehouse does not qualify for this exemption.

**3) a. What types of facilities are eligible for the exemption?**

The exemption is available for warehouses and grain elevators. The warehouse must be 200,000 or more square feet. Square footage is calculated by multiplying the length and width of each floor of a specific warehouse. The entire footprint of the building, including loading docks is used in the calculation. If the total is 200,000 square feet or more, the facility may be eligible for the exemption. The grain elevator must have 1,000,000 bushels or more of storage capacity to qualify for the exemption.

**b. What is covered by the exemption?**

Construction costs are eligible for either a 100% or 50% exemption. New warehouses and an expansion to a warehouse (that meet the 200,000 square foot test) qualifies for 100% exemption. New grain elevators and expansions to grain elevators that are 1 and up to 2 million bushels in size qualify for a 50% exemption on construction. New grain elevators and expansion to grain elevators that are 2 million bushels or more qualify for a 100% exemption.

Material-handling equipment and racking equipment in both warehouses and grain elevators are eligible for 50% exemption. *(See questions 13, 14, and 20 for specific limits on eligible costs.)*

**4) What is a distribution center?**

A distribution center is a warehouse used exclusively by a retailer for the storage and distribution of finished goods to retail outlets of the retailer. If retail sales occur at a facility, it is ineligible for the exemption.

**5) What is a third-party warehouse?**

A third-party warehouse is a person who operates a storage warehouse or cold storage warehouse and is subject to tax under RCW 82.04.280(4). A storage warehouse is a building or structure in which goods, wares, or merchandise are received for storage for compensation. It does not include field warehouses, fruit warehouses, fruit packing plants, warehouses licensed under chapter 22.09 RCW, public garages storing automobiles, railroad freight sheds, docks and wharves, and self-storage or mini-storage facilities. A cold storage warehouse is a warehouse used to store fresh and/or frozen perishable fruits or vegetables, meat, seafood, dairy products, or fowl, or any combination thereof, at a desired temperature to maintain the quality of the product for orderly marketing.

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**6) Does it matter what the warehouse stores?**

Yes, the warehouse must store finished goods. A finished good is tangible personal property intended for sale by a retailer or wholesaler. Logs, minerals, petroleum, gas and other extracted products stored as raw materials or in bulk are not finished goods.

**7) Can a facility that is used to store agricultural products qualify for the exemption?**

Yes, but it must be located off of the land of the producer and it must be owned or operated by an eligible person. Farmers that make wholesale sales of agricultural products are excluded from the special definition of wholesaler and are not eligible for the exemption.

**8) Can a person who constructs a building for lease qualify for the exemption?**

Yes, as long as the lessee is a third-party warehouser, retailer, or wholesaler storing finished goods and the economic benefit of the exemption is passed on to the lessee through reduced rent. Because the exemption is for persons who are engaged in specific activities, a builder/owner must have an agreement with an eligible tenant prior to construction. Speculative building is not covered by the program. However, if the underlying ownership of the warehouse and the machinery and equipment vests exclusively in the same person, the owner/lessor is eligible without having to show proof of economic benefit to the lessee. An example of this type of transaction would be the construction of a facility by a corporation for lease to a wholly owned subsidiary. The construction of a facility by an individual for lease to a wholly owned corporation would also qualify.

**9) Can a warehouse that stores something other than finished goods qualify for the exemption?**

Yes, as long as at least 200,000 square feet of storage space are dedicated exclusively to the storage of finished goods. If less than 200,000 square feet are dedicated exclusively to storage of finished goods, none of the construction qualifies for the exemption. The construction exemption is equal to the cost per square foot of the warehouse multiplied by the amount of square feet dedicated to the qualifying use.

**10) Is the exemption available to a business that has other taxable activities at an otherwise qualifying warehouse?**

Generally yes, if at least 200,000 square feet are dedicated exclusively to the business' activity as a third party warehouser, a wholesaler, or retail distribution center. If less than 200,000 square feet are dedicated to qualifying use, none of the construction qualifies for the exemption. The construction exemption is equal to the cost per square foot of the warehouse multiplied by the amount of square feet dedicated to the qualifying use. However, if manufacturing takes place at

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the business location, the facility is not eligible for the exemption. If retail sales occur at the distribution center, the facility is not eligible for the exemption.

### **Costs Eligible for the Exemption**

#### **11) Do all construction costs qualify for the exemption?**

Not all of the construction costs for an otherwise eligible warehouse or grain elevator qualify for the exemption. Construction of the building, including storage space, office space, lunchrooms, restrooms, and other space in the warehouse that is necessary to the operation of the warehouse are eligible costs. Excavation of the footprint and other costs incurred after that point in time relative to foundation work are covered as well. Loading docks and other space attached to the building and used to handle finished goods are also eligible. Landscaping and parking lots are not considered part of the warehouse and are not eligible for the exemption. Storage yards are not warehouses and are not eligible for the exemption.

#### **12) Do construction costs incurred prior to May 20, 1997 (the effective date of the exemption) qualify for the exemption?**

No. If construction began before May 20, 1997, none of the construction qualifies for the exemption. Construction begins when ground breaking occurs, such as excavation of the building footprint. Equipment under the dominion and control of the business before May 20th does not qualify for the exemption. Ordering equipment or signing construction contracts before May 20th does not constitute delivery or starting of construction. Equipment received after May 20th can qualify for the exemption even though the construction of the building is ineligible.

#### **13) Does the exemption cover all of the sales tax due on the construction of the building and acquisition of the equipment?**

No, the exemption is limited. For grain elevators with a capacity of 1,000,000 bushels but less than 2,000,000 bushels, the exemption is limited to 50% of the sales tax due on the construction costs and equipment costs. For warehouses with square footage of 200,000 or more and grain elevators with a capacity of 2,000,000 bushels or more, the exemption covers 100% of building construction and 50% of equipment costs.

#### **14) What costs are eligible?**

For construction of a warehouse or grain elevator, eligible costs include materials, labor, and services associated with the construction of the structure. Material-handling and racking equipment is eligible for partial exemption. Material-handling and racking equipment means

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equipment in a warehouse or grain elevator used primarily (more than 50% of the time) to handle, store, organize, convey, package, or repackage finished goods or grain. It includes tangible personal property with a useful life of longer than one year or more that becomes an ingredient or component part of the equipment, including repair and replacement parts. It does not include equipment in restrooms, lunchrooms, offices or other non-warehousing space. Only items used to handle or store the finished goods or grain are eligible for the exemption. Vehicles that can be operated legally on streets and roads are not eligible.

### **Using the Exemption**

**15) Does the exemption cover state and local sales/use tax?**

No, the exemption is limited to the state portion of the sales and use tax. Local taxes are not covered.

**16) Are purchases of construction materials, related services, and equipment exempt from tax at the time of purchase?**

No. At the time of purchase, the business pays retail sales or use tax on the cost to the contractor or other vendor. On a quarterly basis, the business files an [Application for Remittance](#) (PDF format) in which they state the total amount of their eligible expenditures. The business will, by following the instructions in the application, multiply the eligible expenditures by the state sales or use tax rate (6.5%) to compute the amount of state sales and use tax paid on qualifying purchases. This amount, in the form of a remittance, will be sent to the business by the end of the calendar quarter following the quarter in which the application was submitted.

**17) How often can the business file an application?**

The business is limited to one Application for Remittance per calendar quarter.

**18) Does the business have to get prior approval before starting construction or buying equipment?**

There is no approval process for construction or acquisition of equipment. You are encouraged to contact the Department of Revenue to discuss the proposed construction or acquisition. The Department will approve or deny an application for remittance based on specific eligibility qualifications.

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**19) Does the exemption only apply to new construction or can an expansion qualify?**

If an existing facility is expanded and the expansion adds at least 200,000 square feet or 1,000,000 bushel capacity, the expansion can qualify for the exemption. The existing facility is not counted in the square footage or bushel capacity expansion calculation.

**20) Is the equipment exemption available to existing buildings of at least 200,000 square feet and for buildings that expand to 200,000 square feet?**

Yes.

**21) Is the equipment exemption available to existing grain elevators as long as the capacity threshold is met?**

Yes.